

**Larry  
Abraham's**

# **INSIDER REPORT**

Our 20th Year

*"Is It Not a Cause?"*

February 2002

## **SPECIAL SITUATION REPORT: DIOMED: PORTRAIT OF A BIOTECH WINNER**

### ***New Year's Resolution***

What's the old saying? Give a man a fish and feed him for a day. Teach a man to fish and feed him for life? Probably the right thing to do is giving a man a fish and then telling him how you caught it ... right?

My first important task undertaken this year is to do just that. The fish is an exciting clinical solutions company called Diomed, Inc. (DIO: AMEX).

Let's not mince any words. I am going to give you the bottom line right up front and then explain why. If you act on it, you have made an excellent investment decision that is going to make you a lot of money. BUY Diomed, Inc. and do it now.

### ***Biotech Investor's Toolbox***

Ever since I made my first investment for our publisher's portfolio in a new generation biotech or medical device company over ten years ago, I have been developing a matrix for what, when, why and how an investor can confidently participate in this most dynamic sector.

First, I surrounded myself with experts in the field in which I'm interested. For many investors, the technology sector was a sea of jargon and difficult to navigate. Getting a grip on the biotech sector can be an equally daunting task. My advisory cadre includes a former Deputy Director from the Food and Drug Administration (FDA), a

former department head for The American Red Cross, a team of doctors and scientists from Kent State University and a myriad of high profile medical and business professionals, including the deputy finance director at Microsoft.

With my all-star team assembled, I set out to define what makes a biotech company a winner on Wall Street. What we discovered was pretty basic. Science, people and money is the simple, yet magic, formula. Naturally, it is more complicated in practice, but viewing a company's merits with your focus on these elements can put you way ahead of the pack when making an investment decision.

What's more, the system works. Over the past few years, I've reeled in some whoppers. Supergen, a pharmaceutical company specializing in cancer drugs is up 270% since I recommended it. Immunex, recent takeover target of AMGEN, rose over 300%. AVII is up over 250% since we discovered it and Hollis Eden Pharmaceuticals is up 150%. Each of these companies score high on our matrix and each one performed as predicted.

The best part is, after doing the dirty work of developing an evaluation system for biotech companies, the sector is RED HOT! In fact, NASDAQ, the technology proving ground, just replaced 13 of its "NASDAQ 100" indicator stocks. 8 of the 13 replacements were in the biotech arena. Every major and minor investment publication on the newsstands chronicle new discoveries and big mergers. And now, armed

with a universally applicable litmus test, we welcome the biotech revolution with open arms.

Before the advent of AIDS and HIV, the timeline for bringing a new medical therapy to market was about 15 years at a cost of approximately \$500 million. Now, because of congressional pressure by special interest groups, the FDA protocols have cut that time in half and costs have come down to about \$75 or \$80 million. Still a lot of money, but considerably less than before.

For the first time, I've assembled all our findings and arranged them in a fairly logical and informative special report called "The Biotech Revolution". It is an investor's toolbox for profiting in the booming biotech sector. My publisher has included some information on this special report in this mailing package and is even kind enough to tell you how to get your hands on a copy. I genuinely hope that you procure one and start applying the principles contained therein.

### **Definition of a Winner**

I can tell you without reservation that the company mentioned earlier, Diomed, Inc. meets every criteria that I have developed and paid dearly to refine. It has the science, the people, the money and a great business model, plus a timeline for profitability that is here and now, not 15 years or even five years from now.

With Diomed, the timeline is now and the science is fully funded, thus eliminating the two biggest considerations any investor ever faces with any stock in any sector: Time and money.

*"I can tell you without reservation that Diomed meets every criteria that I have developed and paid dearly to refine."*

When the NASDAQ meltdown first started in March of 2000, it became very clear that any emerging company that didn't have the cash necessary to become profitable was in deep trouble as the capital markets began to dry up.

Additionally, if the timeline toward profitability was not clear or the burn rate for their capital to get there was adverse or even questionable, they too were in trouble, and so the dominoes started to fall.

Today, a company like Diomed which is well financed, currently profitable or will be shortly, and is growing revenue with each passing month, is among the first tier of companies investors should be seeking in this sector or any sector. So if you knew nothing more of Diomed than this audited fact, it would be worthy of your investment dollars. But there is more, much more which should compel your decision to buy it.

### **What Diomed Does**

Let's take a look in depth: Ever since 1961 when Theodore H. Maimen invented the first laser, we have watched this marvelous technology expand into ever more exciting fields. When we first heard of lasers it was almost

*"With Diomed, the timeline is now and the science is fully funded, thus eliminating the two biggest considerations any investor ever faces with any stock in any sector: Time and money."*

#### **INSIDER REPORT**

Editor-in-Chief: Larry H. Abraham  
Publisher: A.M.D.G. Ltd., Inc.  
Editorial Consultant: Scott Stanley

#### **Editorial Office**

P.O. Box 84903  
Phoenix, AZ 85071

#### **Subscription Office**

*The Insider Report*  
P.O. 84903  
Phoenix, AZ 85071  
800-528-0559 or 602-252-4477 FAX 602-943-2363  
E-mail: PMC701@aol.com

#### **Subscription Information**

One Year: \$199  
Two Years: \$358

*Insider Report* is a private newsletter commenting on political, social and economic events. Information is obtained from resources believed to be reliable, but cannot be guaranteed as to its accuracy or completeness. Use of such information or recommendations is at the risk of the reader, without responsibility on our part. Members of *Insider Report* staff may from time to time hold positions in investments mentioned. (Back issues of *Insider Report* are \$12 each.) Copyright © 2001 by A.M.D.G. Ltd., Inc. All rights reserved. Unauthorized reproduction of this newsletter or its contents by Xerography, facsimile, or any other means is illegal and punishable by law.

entirely within the realm of sci-fi and exotic weaponry. Everything from lasers in outer space floating on a platform waiting to incinerate a major city in a blink of an eye or hand held pistols toted by the Captain Kirk's of the future, captivated our imaginations. Then when the Gulf War erupted, we sat on our couches and watched

how laser-guided missiles and smart bombs sent from bombers at 30 thousand feet or naval destroyers hundreds of miles away could go precisely down the chimney of a computer-programmed target.

But during the past forty years, other laser developments and applications while maybe not at first blush as exciting had been unfolding. The reality is that within the medical field, the developments of laser technology are every-bit as exciting as any smart bomb and far more beneficial to humanity. The semiconductor laser, or what is now called a diode laser can work its wonders in ways almost beyond imagination. For example: a diode laser can, with perfect precision, burn up to 200 separate holes in an area the size of a pinhead and each hole is the exact same diameter.

Now using the same capability plus fiber optics, this same precision can be applied to a host of medical therapies such as laser eye surgery which we all know about - and this is where the Diomed story becomes ever so provocative.

Diomed calls itself a "clinical solutions company" and as such, it is developing and enhancing its patented procedures in two separate platforms. "Platform" is a biotech buzzword meaning "multiple applications." The Diomed platforms are EndoVenous Laser Treatment (EVLT) and Photo Dynamic Therapy (PDT).

Let me explain both as simply as I can as to

*"Diomed's clinical process is solving the problems of varicose veins that affects 25 percent of adult women and 18 percent of adult men. In people over the age of 50, this painful, ugly, and at times, life-threatening malady plagues over 50 percent of both men and women."*

the procedures and profit potential. With the EVLT platform, Diomed's clinical process is solving the problems of varicose veins that affects 25 percent of adult women and 18 percent of adult men. In people over the age of 50, this painful, ugly, and at times, life-threatening malady plagues over 50 percent of both men and

women. Right now, eight of the twelve members of the American College of Phlebology are using and validating Diomed's EVLT varicose vein treatment. (Phlebology is the medical name for varicose veins or blood clotting.)

Their reasons are logical, practical and very cost effective. EVLT enjoys a 98 percent success rate. It is easy to perform, leaves no scarring, requires no general anesthetics, no hospital stays, costs much less, and is more acceptable to the patient. (See website, *summerlegs.com*.) With EVLT the procedure takes about 45 minutes, uses only a local anesthetic in an outpatient environment and the recovery time is virtually the next day. All this and at a 50% or so re-

*I urge my Insider Report readers to participate in the Diomed opportunity with me by contacting their brokers.*

*In addition, the Investor Relations department is available to answer your questions and will forward an investor information package on the company to you and/or your broker. Their toll-free number is (866) 934-6633.*

duction in cost as compared to other therapies.

After exhaustive testing Diomed officially launched EVLT on September 9, at the World Conference on Phlebology held in Rome. At that time, the company had already received CEmark approval for its procedure. CEmark is the European equivalent to an FDA approval. FDA approval is expected in the first quarter of '02,

and in all likelihood, will be granted by the time you are reading this as the company has already submitted its comprehensive data from both clinical trials and in an FDA form 510K.

The profit potential for just EVLT is enormous considering that Diomed offers a one-stop-shopping solution to the phlebologist. The patented Diode laser, the patented fiber, the user's kit, and the training are all built into the EVLT marketing and business model for practitioners and provides the company with operating margins of over 50 to 60 percent. It is conservatively estimated that just the EVLT revenues in 2002 will provide \$12.5 million of Diomed's \$18.1 million. And then, in '03, the total revenues ramp up to \$28.6 million with EVLT still comprising about 60 percent of that gross.

If the EVLT solution were the totality of Diomed's potential, it would be an irresistible buy, but it is just the beginning of the story. In the Photo Dynamic treatment of cancer, three elements are necessary: an efficacious drug, a safe and reliable delivery system, and a light source to target and enhance the drug. In some 20-odd clinical trials currently underway, Diomed supplies two of these three critical elements. Its patented Diode laser and its patented optical fiber.

*"The profit potential for just EVLT is enormous considering that Diomed offers a one-stop-shopping solution to the phlebologist."*

*"If the EVLT solution were the totality of Diomed's potential, it would be an irresistible buy, but it is just the beginning of the story"*

Working with other biotech drug companies such as Axcan, DUSA, Pharmacyclycs, and QLT, the use of photosensitive drugs could easily replace surgery as a primary solution for eliminating cancer cells. The trials cited above are in "fast track" Phase I and II clinicals, and are currently being tested by the companies listed above with a "clinical trial" to attack various concerns and coronary restinosis (arterial blockage). In *all instances*, Diomed's lasers and fiber optics are the only FDA approved modalities for the drug companies' tests, yet Diomed pays none of the costs for the trials.

*"PDT usage in the fight against cancer is estimated to be growing towards a \$2 billion market over the next several years and Diomed's contributions to these applications are conservatively estimated to be no less than 15 percent of that total and growing."*

PDT usage in the fight against cancer is estimated to be growing towards a \$2 billion market over the next several years and Diomed's contributions to these applications are conservatively estimated to be no less than 15 percent of that total and growing. What you need to know about PDT is really quite simple. It could virtually eliminate the need for invasive, traumatic, and usually questionable surgery, reduces dramatically the need for heavy dosages of highly toxic chemotherapy and attacks only the cancer cells leaving the healthy cells unharmed. As to the competition, Diomed's position is very well protected with its laser and optics patents and regulatory approval as a modality required by the FDA. A supplier of unique Diodes and fiber optics, its leadership in Diode laser technology, its close relationship with the leading PDT companies, and its

one-stop support with devices, disposables, and services all work to the companies' benefit.

If and when new companies move into the field of PDT, as most certainly they will, it is reasonable to assume that they will partner up with Diomed, just as the current users have. In practice Diomed's business strategy is to jointly develop the market with early stage PDT companies just as they have with the current users, having already sold over 70 of their currently patented lasers to Axcan alone. The real kicker in this scenario is that Diomed makes money on clinical trials of which they will be huge beneficiaries when proven successful, and they don't spend a dime. I know of no similar situation in the world of biotech or biomed.

As exciting and profitable as their PDT and EVLT platforms are, both currently and projected, Diomed is aggressively planning to expand its technology both internally and with its strategic partner, Olympus of Japan. They will expand manufacturing, make key acquisitions, and improve both revenues and margins. This vision for the company's future brings us to the critical subject of people.

### ***Managing for Profits***

I learned a long time ago, that in any company, be it big, small, old, or new, the most important ingredient is management. In this area, Diomed has a unique mix of business experience, financial expertise, and technical excellence. The President and Chief Executive Officer, Peter Klein is originally from Germany and studied electronic engineering at the famed Robert Bosch School. He relocated to the United States in 1994, and has spent 16 years in the medical image processing business as founder, president and co-chairman of Tomtec Imaging Systems and more recently as President and CEO of Medison American, a subsidiary of the Korean group where he led a number of corporate restructuring transactions.

*"I think Diomed in its current reality would easily justify a price of between \$8 and \$10 per share just based on comparables."*

Mr. Klein's technical expertise is complemented by the twenty-two years of international business and consulting experience with Jim Arkoosh, formerly of KPMG and Diomed's Chairman. An attorney and CPA, Mr. Arkoosh has exactly the type of vast business experience

to maximize and leverage the companies proprietary technologies. I will outline for you the balance of the Diomed management team at the end of this report, however let me take a moment to discuss with you the "people behind the people".

### ***Blue Chip Funding***

The behind the scenes group involved in the private funding of Diomed, its "Venture Capitalists," if you will, are Verus International of New York and London. This private merchant bank is an absolute "Who's Who" on Wall Street. Among its owners, directors and advisors are TOP current and former executives of Citigroup, Goldman Sachs, Morgan Stanley, Merrill Lynch, Paine Webber, and WIT Capital. Famed British billionaire entrepreneur Sir Richard Branson (Virgin Group) is even an advisor to Verus. These are the kinds of people that spotted the Diomed opportunity, invested millions, and helped install the management team discussed above and below. If the analysis performed by this team warranted their significant investment then Diomed certainly merits participation by any passive investor. As I told you, my matrix fills out the Diomed capability and potential with no uncertain terms.

*"As to the competition, Diomed's position is very well protected with its laser and optics patents and regulatory approval as a modality required by the FDA."*

## And, Finally ...

As to its operating capability and its profitability, revenues are conservatively expected to be at \$18.1 million in the current calendar year, and ratchet up to over \$28 million in '03. Depending on the final outcome of last-minute financings prior to trading, that means that the Diomed profit in just 2002 could be somewhere in the neighborhood of 20 cents a share or as high as 30 cents a share and growing at a 50 percent per annum rate for the foreseeable future.

So, as you can see, this is not a timeline with fifteen years requiring \$500 million, this is a company which has everything you could possibly want right now. Diomed has just begun offering its shares to the public on the American Stock Exchange. I think Diomed in its current reality would easily justify a price of between \$8 and \$10 per share just based on comparables.

However, the real fact is that there are no comparable situations to Diomed either as to clinical solution or price potential in either of its two platform technologies.

Let me also disclose that our publisher's portfolio is well invested in Diomed and has no intention of letting go of even one share anytime in the foreseeable future.

I urge my *Insider Report* readers to participate in the Diomed opportunity along with me by contacting their brokers. In addition, Diomed's Investor Relations department is available to answer any questions you might have, and they will be happy to forward an information package on the company to you and/or your broker. **You can reach them toll-free at (866) 943-6633.**

So let me repeat: Buy Diomed (*DIO*: Amex) and do it now.

## More Diomed Management

*Kevin Stern, age 41, General Manager. Stern joined Diomed in March of 2000. He is an experienced and successful general manager having spent ten years with a medical diagnostic manufacturer joining the company in its early start-up phase and growing it rapidly to a workforce of over 700 people and a 30-fold increase in production. Kevin has managed FDA inspections, passing with no observations.*

*Charles T. Hoepper, CPA, age 51, CFO. Hoepper joined Diomed in November 2000. He is an experienced financial executive who most recently has been the CFO of small and medium-sized businesses in service and distribution and telecommunications industry. In 1996, he successfully completed an IPO with Solomon Smith Barney that resulted in a listing on the New York Stock Exchange. From 1985 to 1991, he was Director of Finance for MCI, during a period of dynamic and rapid growth. Hoepper has a CPA and an undergraduate degree from the University of Illinois and an MBA from St. John's University.*

*Tom Mang, Ph.D., Director of PDT Marketing. After receiving his BA in biology at the State University College in Buffalo, Tom went on to get his MS in natural science in 1979 and his Ph.D. in biophysics in 1983 at State University of New York in Buffalo, Roswell Park Division. Dr. Mang became Director of Photodynamic Therapy at Roswell Park Cancer Institute in 1987 then went on to become Director of Photodynamic Therapy at the Department of Radiation Oncology at Buffalo General Hospital in 1995.*

*He has consulted with many corporations involved with PDT such as Miravant Medical Technologies, Sonofi Pharmaceuticals, and Laserscope Laser Systems Inc. He has authored or co-authored over fifty publications concerning PDT.*

*He developed and implemented research programs of new applications of photodynamic therapy and received private foundation funding.*

*Tom joined Diomed as director of PDT marketing and brings an over-abundance of experience to lead the marketing initiative for photodynamic therapy.*

*The team continues to expand. Tiziano Caldera, Mike Irvin, Richard Walker, Anne-Louise Lord, and Geoff Carter round out the on-line management team all of whom bring targeted experience and capability.*

## ***Picking the Right Stocks***

What makes a critical difference to us as buyers of shares is very simple: Have we picked the right companies?

When we examine the core holdings of our big-cap recommendations made over the years, the answer to the above question is a non-qualified "Yes, we have." If you look back three years on our core selections of American International Group (AIG), Microsoft (MSFT), Exxon Mobile (XOM), Boeing Company (BA), and Royal Dutch (RD) you find the following: AIG up 300 percent split adjusted; MSFT up 100 percent split adjusted; XOM up 80 percent merger- and-split adjusted; RD up 10 percent plus 3 percent dividend per annum; and BA is dead-even.

If, however, you go back five years—the time each of them have been a part of the core—the picture is even more rewarding.

However, the real story here is not just how well they all have fared, price-wise, but what has happened to each of them in weathering storms. Huge insurance losses, Justice Department attempts to break up or destroy, oil-price fluctuations of a historic nature, and totally unanticipated airline cutbacks are part of the history of these great companies during the past three years. I should also add that, within this three-year timeline, each of these reached much higher prices than now (as they also reached on the downside), but neither of the extremes tell the real story.

Furthermore, each and all of these companies still are excellent buys at current prices. The reasons for this are the same as when I first recommended them. They are well managed, have plenty of capital, and provide an excellent product or service. The premise was correct for buying each, so the conclusion was and is valid. The only reason that any of them should be sold in the months and years ahead is if there is a fundamental change in the company, thus changing the premise.

As to our "speculations" the picture is, as expected, far more stock specific. There have been both spectacular successes and utter failures, and with many of them the conclusion has yet to be written.

However, if you factor in our selling strategy, on speculative recommendations, the picture is far more rewarding. Remember on all of our speculative recommendations we sell half of the original position once the stock has doubled, we sell half of the new position if it doubles again, and then we hold the balance for the long term regardless of the price movement.

I could take pages of this report to chart just how successful this strategy would have been over the past three to five years with companies of various goods and services. This never has been more evidenced than in the biotech selections—all of which I hope you still are holding even after pocketing some terrific profits. The obvious exception is Immunex (IMNX) which is being bought up by Amgen at a price of \$30. We urged you to buy it at between \$11 to \$12.

Here again, our premise for speculative stocks once examined is valid, and the validity is in the conclusions. The exceptions to the above number no more than three companies, all of which have one thing in common: management lied to us as they did to many others and the results were, in hindsight, entirely predictable.

I might add that, as embarrassing as this is for your editor, it is not a condition limited to small-caps or speculative stocks—i.e., Enron, XO Communications, or Xerox, being the obvious big-cap examples. Unfortunately, there will be others, but this comes with the territory.

## ***The Enron Scandal***

The Democrats are twisting and turning the Enron collapse into whatever potential political leverage they can and it is downright humorous. Led by Rep. Henry Waxman (D-Calif.) and, of course, the mainstream media, the political fallout of these efforts thus far has been the equiv-

valent to an empty pickup truck on a sheet of ice—just spin and no go. They can't decide if they should attack the administration or not, bail out Enron, or try to make it appear that somehow Bush profited by letting it go down. I honestly believe that when the smoke clears we will find that Enron got itself caught on the wrong side of trading derivatives for energy contracts and panicked into cover-up. That is the only thing that could cause so much money to disappear so fast. It seems that the truth of Enron meets the old Texas test of "all hat and no cattle."

### **American Trial Lawyers**

The greatest single threat to American internal security is not the al-Qaida network, but rather the American Trial Lawyers Association. These jackals are out of control, completely out of control, and if Mr. Bush does not rein them in with tort reform as promised in his campaign they will destroy the last vestiges of our Constitution while making megabucks in the process.

Class-action lawsuits have been elevated from the sublime to the ridiculous, placing every manufacturer of anything in an untenable risk position. Just the announcement of a class-action suit can send a stock into a short-sellers

dream. I suggest one of the first places to launch an investigation by the SEC or its congressional oversight committee would be on the connections between trial lawyers initiating such lawsuits and the professional short sellers profiting from them.

### **Watching the Metals**

Keep your eyes on precious metals. If gold continues to hold above \$2.75 per ounce and silver above \$4.60 per ounce over the next month, we could see the reversal of what has been a twenty-year price depression with a squeeze on the short sellers resulting in the doubling of prices for both metals almost overnight.

My favorite silver stock remains Silver Standard (SSRI), currently at about \$2.50 (U.S.). My favorite gold stock is Harmony Gold (HGMCY) at about \$7 (U.S.) per share. Both of these companies are highly leveraged to the metal prices they represent and could grow three to six times faster than the metals prices themselves. One of the major stories which may emerge out of 2002 is the re-emergence of precious metals. Buying positions on both of the above now, with the understanding they can be added to later, makes a lot of sense. Being without any position makes no sense at all.

Information within this newsletter contains "forward looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21B of the Securities Exchange Act of 1934. Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, goals, assumptions or future events or performance are not statements of historical fact and may be "forward looking statements". Forward looking statements are based on expectations, estimates and projections at the time the statements are made that involve a number of "risks and uncertainties which could cause actual results or events to differ materially from those presently anticipated. Forward looking statements in this action may be identified through the use of words such as "projects", "foresee", "expects", "will", "anticipates", "estimates", "believes", "understands" or that by statements indicating certain actions "may", "could", or "might" occur. All information provided within this newsletter pertaining to investing, stocks, securities must be understood as information provided and not investment advice. The *Insider Report* advises all readers and subscribers to seek advice from a registered professional securities representative before deciding to trade in stocks featured within this newsletter. None of the material within this report shall be construed as any kind of neither investment advice nor a solicitation to buy or sell any security. Investing in securities carries a high degree of risk and readers of this newsletter are strongly urged to review all information relative to the company discussed at the company's website [www.diomedinc.com](http://www.diomedinc.com). Further, readers are urged to review disclosure documents and public filings relating to Diomed at the EDGAR section of the Securities and Exchange Commission Website [www.sec.gov](http://www.sec.gov) and at the American Stock Exchange website at [www.amex.com](http://www.amex.com). Additional information about investing in securities can be found at the National Association of Securities Dealers website at [www.nasdaq.com](http://www.nasdaq.com). In compliance with the Securities Act of 1933, Section 17(b), the distribution of this newsletter report on Diomed to current and potential new subscribers was funded at a cost of approximately \$700,000. Catalyst Communications received and administered this production budget. Multi-National consultants received a fee of \$5,000 to arrange and pay for professional 3d party due-diligence of Diomed Inc. Further Multi-National Consultants expects to receive a share option of approximately 100,000 shares of Diomed for international marketing consulting services in relation to their products and services. Larry Abraham and his publisher expect to receive new subscriber revenue as a result of this mailing, the amount of which is unknown at the time of publication. Be aware of an inherent conflict of interest resulting from such compensation. All factual information in this report was gathered from sources believed to be reliable but *Insider Report* can make no guarantee as to its accuracy or completeness, it should be considered advertising and for informational purposes only. Use of the material within this newsletter constitutes your acceptance of these terms.